

# Northumbria Research Link

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## Rewriting the rule book

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The dreaded phrase; the 'credit crunch' has infiltrated vernacular speak. For one who is charged with the (unenviable) remit of managing a rapidly contracting local economy in the North East of England, this only became apparent when a young relative of mine, not long out of nappies, told me that she was not allowed a new toy, and was thus saving her "pennies, because of the credit crunch". The crunch has transformed into an economic recession that is real: affecting you, me and even my younger cousin Hannah. What began as a banking crisis during the summer of 2007 following the collapse of the US sub-prime mortgage market has subsequently led to an international tightening of fiscal transfers and a lack of confidence in global stock markets. In autumn 2008, the strength of the financial system was tested further with a severe collapse of confidence. Only massive liquidity support by central banks and rescue packages engaged by national and supranational governments have (so far) staved off a systemic financial meltdown. Consequently, what started as a crisis in the financial sector continues to affect the 'real' everyday economy. Initial projections that financial capitals, such as London, would feel the brunt and peripheral towns and cities, such as Durham, with less employees in the banking sector would be sheltered are now proving way off mark.

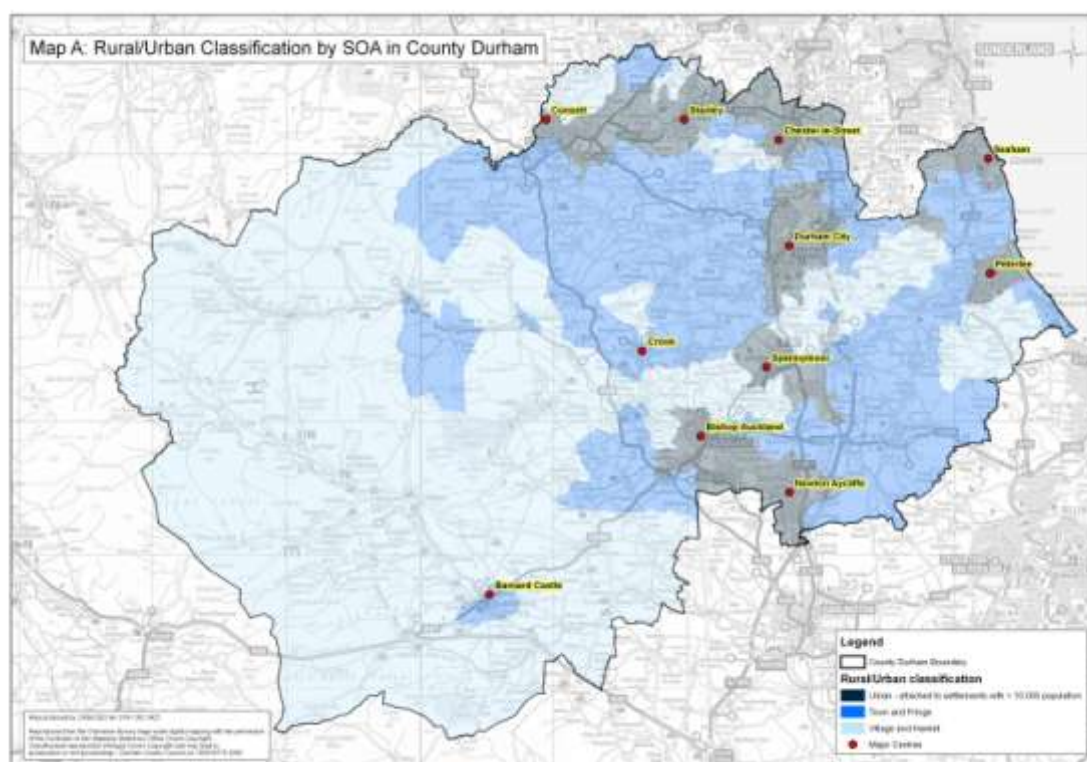
The UK is now in recession for the first time since 1991, as Gordon Brown's economic rule book is being rewritten. Official figures released in February 2009 highlight a 1.5% drop in Gross Domestic Product (GDP) in the final three months of 2008 after a 0.7% reduction in the previous quarter. The 2008 Quarter 4 fall in GDP represents the biggest quarter-on-quarter decline since 1980. Towns, cities and neighbourhoods, the length and breadth of the UK are feeling the crunch (Ward, 2009). Further, it is perhaps places that were weaker in the good times which are struggling most in the bad times. County Durham is one such place where this rings true: economically fragile in the good times, in the present bad times, the County looks on uneasily at a precarious economic future.

## County Durham: a dispersed economic picture

At the heart of the North East of England, County Durham is well placed to *connect* ‘areas of opportunity’, including the Tyne and Wear and Tees Valley conurbations to the north and south of the region respectively, with more deprived communities and ‘areas of need’ in former coalfield and rural localities. The County exhibits a distinctive and diverse settlement pattern which is rather unique amongst the shire counties in England. This settlement pattern has largely resulted from the geology of the County and the consequential reliance on coal and mineral ore mining in the past. The largest settlement in the County is the City of Durham (circa 40,000 inhabitants), but this belies the population density of the east and central corridor of the County. If one places a pin at random on a map of the County at any position to the east of the A68 trunk road, within a five mile radius you are likely to capture a population of approximately 100,000, and within a ten mile radius 200,000-250,000. A ‘village’ within County Durham often has a population size that would classify it as a small town in other counties. The economic history of the County has thus generated a spatially fragmented and isolated geography of small dispersed ‘urban’ settlements. The County has over three times the proportion of its population living in areas classified by government as *Town and Fringe* (33.9%) compared to the national average of 10% (see figure 1).

Many communities are locked into a cycle of multigenerational unemployment, deprivation and state dependency: 65.8% of residents live in the highest 30% of Lower Super Output Areas (LSOAs) ranked nationally on the basis of employment deprivation. So, although the visible scars of the County’s industrial past are largely gone, replaced by new urban amenities and spaces of consumption, a legacy of social and employment problems remain.

**Figure 1:** County Durham's Urban/Rural Classification



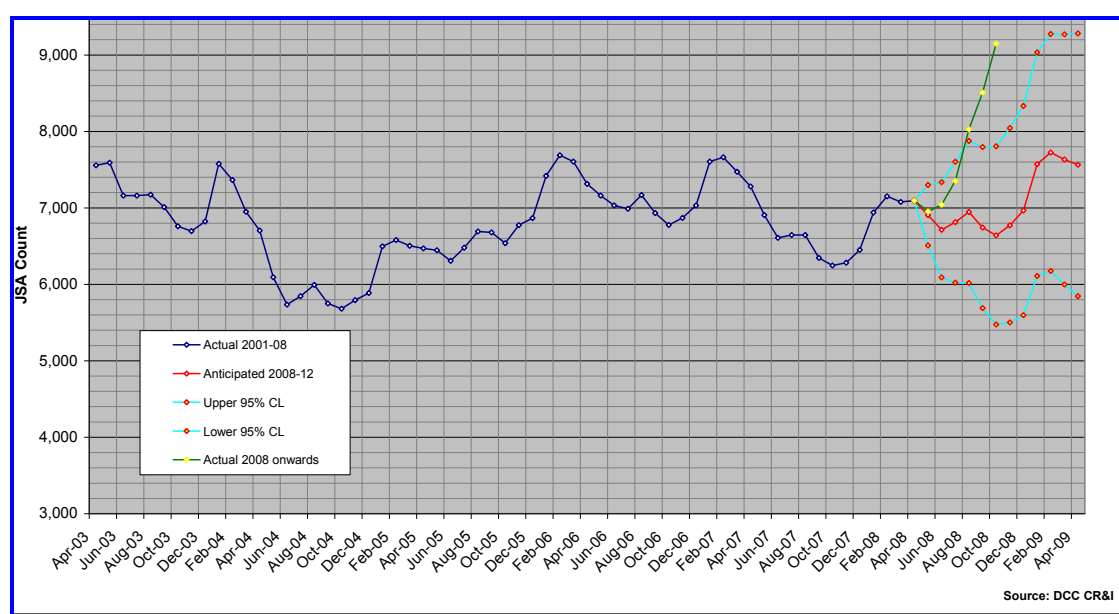
### Reverberating impacts of the ‘crunch’ and emerging trends

To some extent, County Durham's relatively large proportion of public sector jobs – equating to around a third of all employees – together with a limited number of jobs in the financial services sector will cushion the blow of the economic downturn. This premise prompted some bodies, such as the Confederation of British Industry (CBI), to suggest that the North East will be insulated from the economic downturn compared with job losses occurring in places such as the Docklands financial district in London. However, County Durham's economy was fragile prior to the downturn and there is now consensus that those areas suffering before the economic downturn will be affected more severely (Parkinson *et al.*, 2009).

The contribution made by County Durham to the regional economy has followed a downward trajectory over the period 1995-2006. County Durham's 2006 Gross Value Added (GVA) was at 61% of the national average, accounting for 15.2% of the regional total compared to 17% in 2005 and over 20% in the 1990s. When coupled with the recent economic downturn, this paints a bleak picture of sustained decline, with the proportion of jobless now exceeding

10% of the working age population. Unemployment in the County is rising faster than national trends and has repeatedly broken upper forecast limits (see figure 2). Job Seeker Allowance (JSA) claimants have increased by almost 90% over the past year: an alarming rate. The distribution of worklessness at a ward level, expressed as a percentage of the working age population total, is shown in figure 3, with the intensity of colour reflecting the seriousness of worklessness concentrations.

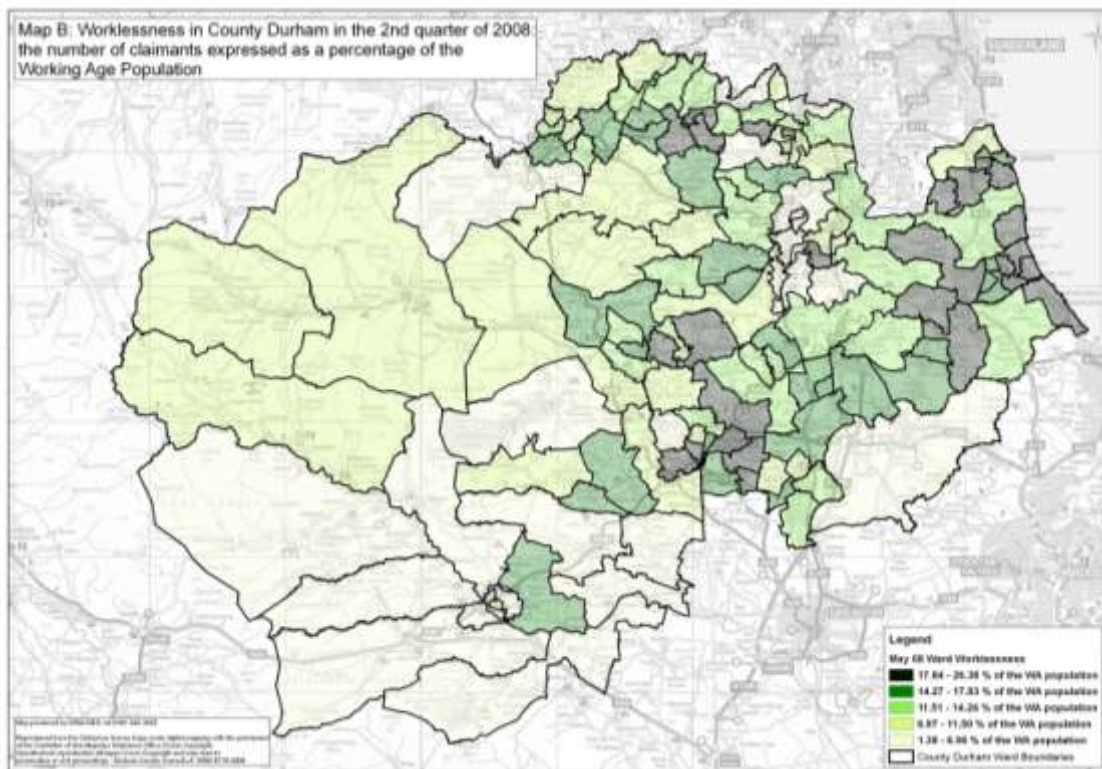
**Figure 2:** Predicted JSA claimant count in County Durham over the period April 2008 to April 2009



Taking a sectoral viewpoint, engineering and component manufacturing has witnessed the highest number of redundancies, followed by motor vehicles and trailers, and construction. Over 20% of all employee jobs in County Durham are in construction and manufacturing – some of the worst hit sectors. An analysis of JSA claimants by occupation shows the highest unemployment increases are in: Process, Plant and Machine Operatives; Elementary Occupations; Skilled Trades; and Sales and Customer Services. Spatially, the additional costs of running a business in rural localities due to peripherality, remoteness and transport costs continue to bite and are becoming more entrenched. Increased farming incomes are largely off-set by the large rises in input costs, such as diesel, fertiliser and feed. Whilst occupying several jobs, commonly referred to as ‘job juggling’, may help spread the risk of becoming redundant for rural residents, it accentuates hidden deprivation as people often seek lower

paid part-time work and they can become locked in a cycle of low-paid and insecure employment. Even though house prices have fallen, the cost of living in general has risen as potential home owners struggle to obtain mortgages. Collectively, increasing unemployment, rising cost of living and reduced financial confidence have resulted in reduced consumer and business spending which is severely affecting the whole of the 'local' economy.

**Figure 3:** Worklessness in County Durham



What began as a crunch for bankers and other financial movers-and-shakers has now permeated the 'real' economy of everyday life. A few examples of the everyday impacts in County Durham include: an annual increase in Welfare Rights case load by approximately 28%, higher take-up of free school meals, and an increase in 'crimes against the person' reported by Durham Constabulary.



## Real help for business and people now

Immediate intervention is required to secure job retention and business survival, thereby minimising increases in unemployment across the County. The problems are particularly acute in the County's former coalfield communities and exacerbated by poor housing stock, worklessness and limited accessibility to employment in 'areas of opportunity'. The multifaceted nature of these problems requires a multi-agency approach combined with the strategic alignment of funding streams and policy priorities. Integrated investment in housing, transport, education, health, skills and economic development is paramount, but whether Brown's public works programme following Keynesian principles will achieve this is debateable. Over the medium to longer term, spatially sensitive fine-grained interventions are required, which fit with the County's unique settlement pattern and industrial legacy. A one size fits all regional investment approach of 'fewer, bigger, better' as expounded in the North East's Regional Economic Strategy; *Leading the way* (One NorthEast, 2006), is clearly inappropriate to the needs of County Durham.

Whilst there are undoubtedly difficult times ahead, building and maintaining business and consumer confidence will be a key factor in reducing the length and depth of the recession in County Durham. Opportunities do exist and significant interventions are already taking place at the local, regional and national level (Pugalis, 2008). Under the banner 'Real help for business and people now' (see figure 4), a range of support is on offer through partnership working across County Durham from homeowners with difficulties paying their mortgages, or people seeking employment or training, to small businesses with cash flow problems and larger businesses needing working capital.

**Figure 4:** Help is it hand according to slogan



As already noted, the size of the public sector in County Durham is substantial proportional to total employment, representing nearly 32% of those employed in the County, which

prompts me to call for strategic leadership across the wider public sector including primary care trusts (PCT) and government agencies, such as the newly formed Homes AND Communities Agency (HCA). Genuine strategic leadership would include, but not be limited to, the integrated management of capital programmes, employee recruitment and retention schemes, access to services for those who are unemployed or struggling with debt, and more broadly ensuring an effective joined-up and spatially sensitive approach to policymaking, investment support and interventions. Whilst the public sector is by no means immune to the crunch and has to grapple with increased cost pressures, decreases in income streams and a projected increase in demand for services, nevertheless, they play a decisive role in their local economies as large employers, purchasers and in promoting economic development and community wellbeing.

It is becoming clear that what began as a private sector banking crisis is now being left to the public sector to pick-up the pieces. For those who cannot see the wood for the trees, for which I myself was culpable, let me plainly spell it out: the UK presently languishes in the economic doldrums. No single player, whether public or private, is capable of dragging us out of the recession. Many places have recognised this and have subsequently established multi-agency Task Forces and co-ordinated Action Plans. Durham is no different in this respect. However, what such groups should recognise and embed in their local plans of action is that the global credit crunch has decidedly local implications. It is why spatially sensitive interventions are so important and why the local roll-out of national and regional programmes does not always produce the desired results that it *should*.

I have not sought to use these pages to publicise all the good work that we are doing in County Durham: despite some small successes, economic indicators demonstrate that we are still embroiled in a significant battle. However since April 2009, a unitary structure of local government operates across County Durham; replacing the previous two-tier system by transforming eight bodies into one. This presents a fundamental opportunity to demonstrate genuine strategic leadership by developing spatially sensitive services informed by the County's dispersed settlement pattern and business and community requirements; both in the short-term and with one eye on the future in order to capitalise on the upturn. As the economic rule book is being rewritten, local authorities have an opportunity to 'grasp the nettle' and drive forward the place-shaping agenda in their localities.



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